



Legislative Audit Division

State of Montana

Report to the Legislature

October 2006

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Department of Administration

This report contains twelve recommendations to the department related to:

- ▶ **A transfer to the Volunteer Employee Benefit Account.**
- ▶ **Unconstitutional payment from the Treasury.**
- ▶ **E-government Services.**
- ▶ **Adequate controls over state property and processing transactions.**
- ▶ **Compliance with state accounting policy.**
- ▶ **Compliance with state and federal laws.**

This report also contains one disclosure issue related to recording revenues and expenditures from e-government transactions.

**Direct comments/inquiries to:
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06-13

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
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October 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration for the two fiscal years 2004-05 and 2005-06. This report contains twelve recommendations related to e-government services, compliance with state and federal laws and policies, adequate controls over state property and the processing of transactions, and accounting errors. The report also discloses one issue, with no recommendation, concerning recording all revenues and expenditures from e-government transactions.

The department's written response to the audit recommendations is included beginning on page B-3 of the audit report. We thank the director and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Department of Administration

Members of the audit staff involved in this audit were

Jeane Carstensen-Garrett, Jennifer Erdahl, John Fine, Alexa O'Dell,
Jay Phillips, Delsi Plummer, Lena Tamcke, and Amber Thorvilson.

Table of Contents

Appointed and Administrative Officials	iii
Report Summary	S-1
Introduction.....	1
Introduction.....	1
Department Organization and Functions	1
Prior Audit Recommendations.....	5
Findings and Recommendations.....	7
Volunteer Employee Benefit Account (VEBA) Transfer	7
Unconstitutional Payments from the Treasury	8
Electronic Government Financial Operations.....	9
Deposits of State Money.....	10
Controls.....	11
Information Technology Services Division.....	11
Surplus Property Inventory.....	12
Journal Approval	13
Accounting Issues	14
Federal Compliance	16
Statewide Fueling Network and Purchasing Card	17
Credit Card Rebates.....	18
Incorrect Fund	19
State Compliance	20
Compliance With State Laws Specific to Department	21
Internal Service Funds	22
Group Benefits	24
Management Services.....	25
Statewide Fueling Network and Purchasing Card.....	26
Warrant Writer	26
Disclosure Issue	29
E-government Revenues and Expenditures	29
Independent Auditor's Report & Department Financial Schedules.....	A-1
Independent Auditor's Report	A-3
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2006.....	A-5
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2005.....	A-6
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2006	A-7
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2005	A-8

Table of Contents

Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2006	A-9
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2005	A-10
Notes to the Financial Schedules	A-11
Department Response	B-1
Department of Administration	B-3

Appointed and Administrative Officials

Department of Administration

Janet Kelly, Director

Sheryl Olson, Deputy Director

Paul Christofferson, Administrator
Administrative Financial Services

Thomas B. O'Connell, Administrator
Architecture and Engineering Division

Marvin Eicholtz, Administrator
General Services Division

Connie Welsh, Administrator
Health Care and Benefits Division

Dick Clark, Chief Information Officer
Information Technology Services Division

Anne Goodwin, Commissioner
Banking & Financial Institutions Division

Brett Dahl, Administrator
Risk Management and Tort Defense Division

George Parisot, Director
Montana State Lottery*

Randy Morris, Administrator
State Personnel Division

Karen Powell, Chair
State Tax Appeal Board*

James Wheelis, Attorney
Appellate Defender's Office*

Judy Edwards, Executive Director
Montana Consensus Council*

*Officials of entities attached to the department for administrative purposes are listed above if the entities' financial activities are included in the department's financial schedules. The Public Employees' Retirement Administration, the Teachers' Retirement System, the Montana State Fund, and the Office of State Public Defender issue separate annual financial statements, so officials of these entities are not listed.

Department of Administration

This report documents the results of our financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 2006.

This report contains twelve recommendations addressing compliance with state or federal laws and regulations and adequate controls. This report also includes a disclosure issue.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely on the presented financial information and the supporting data on the state's accounting records.

The department's written response to the audit begins on page B-3.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend:

- A. The department limit group benefit expenses to plan claims and fund the volunteer employee benefit account from plan revenue as required by state law.

Department Response: Concur. See page B-3.

- B. The VEBA fund reimburse the group benefits fund \$382,576 for the transfers made in fiscal years 2004-05 and 2005-06..... 8

Department Response: Conditionally concur. See page B-3.

Recommendation #2

We recommend the department pay the procurement credit card bill through an appropriation as required by the constitution..... 9

Department Response: Do not concur. See page B-4.

Recommendation #3

We recommend the department ensure the state's revenue collected by the e-service provider is deposited in the state treasury in compliance with state law. 11

Department Response: Conditionally concur. See page B-4.

Report Summary

Recommendation #4

We recommend the department:

- A. Ensure expenditure transactions are properly authorized according to division control procedures.

Department Response: Concur. See page B-4.

- B. Ensure travel claims are properly supported and approved in accordance with state travel policy..... 12

Department Response: Concur. See page B-4.

Recommendation #5

We recommend the department update and follow the surplus property policy manual..... 13

Department Response: Concur. See page B-4.

Recommendation #6

We recommend the department ensure that approval decisions made by agencies are accurately established in SABHRS. 14

Department Response: Concur. See page B-5.

Recommendation #7

We recommend the department:

- A. Ensure all divisions are aware of state accounting policy related to accounting for federal funds.

Department Response: Concur. See page B-5.

- B. Comply with state accounting policy related to recording expenditure abatements, federal fund balances, and revenue classes..... 16

Department Response: Concur. See page B-5.

Recommendation #8

We recommend the department develop adequate controls to ensure the SWCAP is accurately completed and submitted timely in accordance with federal regulations..... 17

Department Response: Concur. See page B-5.

Recommendation #9

We recommend the department allocate volume discount rebates from credit card companies to federal expenditures as required by federal regulations..... 19

Department Response: Conditionally concur. See page B-5.

Recommendation #10

We recommend the department:

- A. Record all revenue for the statewide fueling network and purchasing card programs in the fund approved by the legislature.

Department Response: Do not concur. See page B-6.

- B. Seek legislation to move the statewide fueling network and purchasing card programs to a fund that is appropriate under state law. 20

Department Response: Concur. See page B-6.

Recommendation #11

We recommend the department:

- A. Comply with section 18-1-110, MCA, and include hiring preference provisions in contracts.

Department Response: Concur. See page B-6.

- B. Comply with section 75-10-806(5), MCA, and establish a joint recycling market development task force.

Department Response: Concur. See page B-6.

- C. Comply with section 2-18-204(1), MCA, and determine classes of positions of employees each fiscal year.

Department Response: Concur. See page B-6.

- D. Comply with section 22-3-804, MCA, and appoint members of the Burial Preservation Board as the law allows.

Department Response: Concur. See page B-6.

- E. Or seek legislation to amend the laws. 22

Recommendation #12

We recommend the department comply with section 17-8-101(6), MCA, and ensure internal service fund rates are commensurate with costs or seek legislation to move the activity to a more appropriate fund type. 27

Department Response: Concur. See page B-7.

Introduction

Introduction

We performed a financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 2006. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems and, if appropriate, make recommendations for improvement in internal and management controls of the department.
2. Determine if the department complied with applicable state and federal laws and regulations.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the department's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 2006.

This report contains twelve recommendations to the department and one disclosure issue. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report, but have been communicated to management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

As required by section 17-8-101(6), MCA, we analyzed the rates charged and fund equity in the department's Internal Service Funds. The result of our work begins on page 22.

Department Organization and Functions

The department provides services to other state agencies in the areas of accounting and financial reporting, warrant writing, capitol complex maintenance, state treasury services, insurance coverage, information systems development, personnel management, purchasing, and surplus property administration.

The following paragraphs describe the divisions which perform the department's primary functions and authorized full time equivalent (FTE) for fiscal year 2005-06.

Introduction

Administrative Financial Services Division (46 FTE) - establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act (CMIA), processes warrants for all state agencies, and prepares the state's Basic Financial Statements. The division also provides management support (accounting, budgeting, payroll, data processing, and personnel management) services to the department. Additionally, this division includes the director's office which is responsible for the overall supervision and coordination of department programs and administratively attached boards and agencies. The department director chairs the Capital Finance Advisory Council (CFAC), which provides oversight of state debt management by performing analysis of prospective financing, existing debt load and trends in public finance markets. The director's office also includes the department's legal unit. Additionally, the office supports the Board of Examiners and maintains its minutes. The Consumer Protection Office was part of this division in fiscal year 2004-05 and provided assistance and follow-up related to telemarketing fraud. In fiscal year 2005-06, the Consumer Protection office moved to the Department of Justice. Effective in fiscal year 2006-07, the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) will move from the Information Technology Services program and the Office of Labor Relations will move from the State Personnel Division to this Division.

Appellate Defender (3 FTE) – provides legal counsel for indigent persons who have been convicted and then appeal their district court conviction. The appellate defender also aids the Appellate Defender Commission in compiling and keeping current a roster of Montana attorneys eligible for appointment by an appropriate court as trial and appellate defense counsel for the indigent. Effective July 1, 2006, the Appellate Defender became part of the Office of State Public Defender.

Architecture and Engineering (17 FTE) - manages the remodeling and construction of state buildings. The division also formulates a long-range building plan for legislative consideration each session.

Banking and Financial Institutions Division (35.75 FTE) - is responsible for protecting the public's interest by regulation of all state-chartered banks and financial institutions. Supervision of regulated financial institutions is accomplished through on-site financial safety and soundness examinations conducted by division examiners.

General Services (101.06 FTE) - manages repair and maintenance services for state agencies in the Capitol complex and several state-owned buildings in the Helena area. The procurement and printing function of the division provides centralized purchasing, printing, and mail services to state agencies located in the Helena area.

Health Care and Benefits Division (10.87 FTE) - provides state employees and retirees with group medical, dental, prescription, life and other related group benefits. The division also administers flexible spending accounts and a sick leave fund.

Information Technology Services Division (190.50 FTE) - maintains SABHRS, and provides central mainframe computer processing services that access the central mainframe computer. The division, administered by the Chief Information Officer, establishes and enforces statewide IT policies and standards. The division is responsible for the development and implementation of the Strategic Plan for Information Technology. The division designs and develops data processing applications and provides maintenance support. The division also provides data processing training and support, as well as consulting services, for microcomputer and office automation systems. Disaster recovery facilities for critical data processing applications are also managed by the division. Effective in fiscal year 2006-07, the SABHRS function became part of the Administrative Financial Services program.

Montana Consensus Council (2 FTE) – provides assistance for building agreement on natural resource and other public policy issues; resolves controversial issues before disputes occur, and

Introduction

increases public awareness and understanding of cooperative approaches to building agreement on public policy.

Montana State Lottery (31.5 FTE) - sets policy and oversees activities and procedures of the lottery. The program director coordinates the lottery's marketing, operations, security, and administration. The lottery is administratively attached to the department and included in the financial schedules. Financial activity of the Montana State Lottery is audited annually by a private CPA firm, under contract with the Legislative Auditor. Legislative Audit Division information systems auditors perform biennial audits of lottery security (06DP-02).

Risk Management and Tort Defense (16 FTE) - provides insurance coverage for state agencies, administers the self-insurance and risk management program, and defends state agencies in tort claims lawsuits.

State Personnel Division (31.50 FTE) - provides state agencies with a variety of human resource management programs including training, position classification and pay, collective bargaining, and employee relations. The Office of Labor Relations is responsible for the collective bargaining. Effective July 1, 2005, this function moved from this division to the Director's office within the Administrative Financial Services Division. Additionally, the division publishes state rules, standards and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other matters. The division also administers employee incentive awards.

State Tax Appeal Board (6.5 FTE) – resolves tax appeals concerning real and personal property, income, corporate, natural resource, centrally assessed property, and new industry taxes. The board is administratively attached to the department.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2004, contained ten recommendations to the department. The department implemented eight, partially implemented one, and did not implement one recommendation. The recommendation partially implemented relates to actuarially funding the Agency Insurance internal service fund. The department has developed a plan and intends to be actuarially funded by fiscal year 2009. We make no further recommendation at this time. The one recommendation not implemented is discussed starting on page 11 and relates to travel claims.

Findings and Recommendations

Volunteer Employee Benefit Account (VEBA) Transfer

The department transferred \$382,576 from the Group Benefits internal service fund to pay administrative costs of another fund.

Section 2-18-812(3), MCA, requires all reserve funds and premiums paid to the state employee group benefit plan account within the state self-insurance fund to be expended for claims under the plan. The department made transfers from the employee group benefit plan account to another fund during the audit period that was not for claims.

Section 2-18-1304(4), MCA, requires administrative expenses of VEBA to be paid by the VEBA plan. VEBA is a voluntary plan employees can elect to participate in which can be used to pay health care costs. State law dictates the voting procedures for electing to participate in the plan. Once the election is made, a designated number of sick leave hours can be converted to a contribution to the member's account. In order to fund the start up costs of the plan, the department received an intercap loan from the Board of Investments.

During fiscal years 2004-05 and 2005-06 the department did not have enough funds to pay off the balance of the intercap loan and to operate the VEBA plan. The Health Care and Benefits Division personnel determined a transfer from the employee group benefits reserve funds to the VEBA fund would be the best way to benefit the employees or retirees who ultimately had paid into the reserve fund. In fiscal year 2004-05, \$150,000 was transferred to VEBA. In fiscal year 2005-06, an additional \$232,576 was transferred. Of the total \$382,576 transferred, \$252,911 was used to pay off the balance of the intercap loan.

As a result of the transfers, the department is not in compliance with the restriction in statute on what state employee group benefit funds can be expended on or how the plan can pay administrative expenses. Additionally, since the employee group benefits fund is an internal service fund and fees must be commensurate with costs, the transfer could result in increased fees to cover the cost of the transfer

Findings and Recommendations

and therefore forcing all state employee health plan participants to essentially pay a portion of the operating costs of a voluntary account. Recommendation #12, starting on page 22, discusses the reasonableness of fees for this fund.

Recommendation #1

We recommend:

- A. The department limit group benefit expenses to plan claims and fund the volunteer employee benefit account from plan revenue as required by state law.**
- B. The VEBA fund reimburse the group benefits fund \$382,576 for the transfers made in fiscal years 2004-05 and 2005-06.**

Unconstitutional Payments from the Treasury

The department administers the state's procurement card program. As administrator of the program, the department pays the credit card bill for the entire state. The department has procedures in place to distribute the credit card charges to the responsible agencies where it is recorded to an expenditure account and against an appropriation for each agency. However, the actual credit card bill is paid out of the treasury using an asset and liability account. The state's constitution in Article VIII, Section 14 states "... no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof." Asset and liability accounts do not get charged against appropriations. In fiscal year 2004-05 and 2005-06, total procurement card payments from the treasury totaled approximately \$36 million and \$20 million, respectively.

We reviewed department and agency transactions related to the procurement card for one month. We noted the department did initiate transactions to distribute the activity to an appropriation at the responsible agencies. However, until an agency reviews and edits or approves the coding on the transactions, they are not recorded on the accounting system to any appropriation. We further noted not all agencies reviewed, edited, or approved their

Findings and Recommendations

transactions in a timely matter following the disbursement of funds from the treasury which paid the credit card bill. As a result, money was paid out of the treasury days or even weeks before appropriations were actually charged, which violates the constitution.

Department personnel stated their procedures to distribute the credit card purchases to each agency ensures the money paid out of the treasury to pay the bill is against an appropriation. However, as noted above, the payment of the procurement card bill and the entries to record an expenditure do not happen on the same day.

Department personnel further stated that by paying the bill promptly, the department is maximizing the rebate received to fund the program and also prevents the department from having to pay interest or late payment charges. Although, the department is paying the bill to effectively manage the procurement card program, their procedures do not comply with the constitution.

In order to comply with the state's constitution, the department should ensure money paid out of the treasury for the procurement card is paid against an appropriation or ensure agencies record expenditures prior to paying the credit card company.

Recommendation #2

We recommend the department pay the procurement credit card bill through an appropriation as required by the constitution.

Electronic Government Financial Operations

The department has oversight responsibility for government information and services made available over the internet. The Montana Electronic Government Services Act of 2001 (sections 2-17-1101 through 1105, MCA,) establishes statutory requirements related to developing the state's internet services (e-services). In June 2006, our office released a performance audit report (06P-08) which focused on the processes used to develop, evaluate, and finance e-services through a third party contractor. The report made several recommendations for improved financial

Findings and Recommendations

management controls for e-services. This report section discusses the deposit of state funds. The disclosure issue on page 29 also discusses the recording of revenues and expenditures from electronic government transactions.

Deposits of State Money

The department did not monitor all applications to ensure deposits were made in accordance with state law.

The department contracts with a vendor to process e-government transactions. In calendar year 2005, the e-service contractor, acting as the state's agent, collected and processed revenue totaling approximately \$135 million. The collections included taxes, hunting and fishing license fees, university tuition and fees, business and professional licenses, corporate filing fees and sales of certain motor vehicle and corrections data, and the related transaction fees.

Section 17-6-105(6), MCA, establishes criteria requiring timely deposit of state revenue in the state treasury. Under this law, a state agency must deposit collections whenever the amount collected exceeds \$500 or at least weekly. Each e-service provided as part of the e-government services contract has a separate work order. The state agency can specify deposit parameters as part of the work order. During the audit we noted many of the 32 e-services with collections did not specify deposit instructions that complied with state law. Some agencies allowed deposits as infrequently as every thirty days.

Department personnel stated that each agency negotiates its own work order and the agency can set the deposit requirements for the application. The department has administrative responsibility for state oversight of e-services, purchasing, treasury operations, and accounting. Although the e-services contract establishes flexibility for agencies to determine many features of the applications developed for their businesses, the department should ensure the basic framework of the contract facilitates compliance with applicable state laws. Noncompliance with the state deposit law results in lost interest earnings to the state and increase risk of theft

Findings and Recommendations

or misuse of state funds. The performance audit (06P-08) estimated between \$6,000 and \$10,000 was lost in interest earnings in fiscal year 2004-05.

Although the vendor is an outside party, the vendor is contracting with the state at various departments and the departments and collections are subject to the state law requiring the timely deposit of state money.

Recommendation #3

We recommend the department ensure the state's revenue collected by the e-service provider is deposited in the state treasury in compliance with state law.

Controls

State law and accounting policy address legal requirements related to fiscal control and accountability. A properly implemented control structure will allow the department to prevent, or detect in a timely manner, errors in its financial records or instances of noncompliance with state laws or accounting policies. The following sections outline areas in which the department could improve controls related to approval and processing of transactions and ensuring compliance with state policy.

Information Technology Services Division

The Information Technology Services Division (division) did not follow its control procedures for approving transactions and travel claims.

The division manages central computing and telecommunications services for state government and has accounting staff to process the division's transactions. Division personnel explained that as invoices or bills are received, they are stamped, the accounting coding is noted, and approval is documented through initials or a signature.

We reviewed a sample of 20 expenditure transactions and noted 10 transactions had a date in the approval area but did not have the

Findings and Recommendations

required initials or signature. According to division personnel, the transactions should have been approved, but could not explain why the documents did not contain appropriate approvals.

In addition, we followed up on a prior audit recommendation related to travel claims within the division. State travel policy requires miscellaneous expenses of \$25 or more be supported with paid receipts. We reviewed 24 division travel claims and noted three did not have the proper support for miscellaneous travel charges. Of these three, one had documentation requesting support for the miscellaneous charge but was approved without receiving it. Of the remaining two, one was approved and one was not. No explanation was given as to why the claims were paid without the required support or approval. Without proper support, approving personnel cannot determine if a charge is allowable for reimbursement under state policy.

The division should ensure its control procedures for supporting documentation and approval is followed to ensure errors are detected and transactions are in accordance with state policy.

Recommendation #4

We recommend the department:

- A. Ensure expenditure transactions are properly authorized according to division control procedures.**
- B. Ensure travel claims are properly supported and approved in accordance with state travel policy.**

Surplus Property Inventory

The Surplus Property Program does not have adequate controls in place over surplus property.

The Surplus Property Program within the department receives property no longer used by state agencies. The majority of the surplus property is either sold or scrapped. The revenue received from the sale of the property is remitted to the agency which owned the property less a fee kept by the program to cover costs. Surplus

Findings and Recommendations

property items can include chairs, desks, filing cabinets, computers, and vehicles.

We observed the fiscal year end 2005-06 surplus property inventory process. We also reviewed documentation of property received and the surplus property policy and procedures. Based on our observations and review, we noted the policy manual is not consistently followed. Items received from agencies are not compared to the form listing the property from the agency, items are not checked in or out of the warehouse, the inventory process does not include checking items off as they are located, and areas designated in the warehouse for sold items also include new items, items for sale, and items to be scrapped.

Program personnel stated the policy manual is out of date and they are working on an updated version. Program personnel should update the policy as necessary to implement controls over the property that are cost effective considering the value of the surplus property and its susceptibility of theft.

Recommendation #5

We recommend the department update and follow the surplus property policy manual.

Journal Approval

The department did not accurately input journal approval requirements requested by state agencies.

Accounting transactions are recorded on journals that post to a specific module on the state's accounting system. The state's accounting system, SABHRS, has the capability to allow journals entered into the general ledger module to be approved or processed with or without approval. When SABHRS was implemented on July 1, 1999, the department to which each business unit was assigned was required to complete a form stating whether they wanted journals to be approved before the system would process

Findings and Recommendations

them. If a business unit is changed or created, the existing form should be updated or a new form should be submitted. As the agency responsible for establishing the controls, the Information Technology Services Division of the department input the information contained on the forms into SABHRS.

We reviewed the approval requirements for the five business units assigned to the department of administration. Of the five business units, two had requested journal approval but were input as not requiring approval. One business unit did not have a form on file documenting whether or not approval was needed. Department personnel did not know how the information was incorrectly input or why one business unit did not have the appropriate form on file.

Processing journals without proper approval, or the knowledge that journals do not have to be approved, increases the risk that transactions recorded on the accounting system are processed with errors or do not comply with state law or accounting policy.

Recommendation #6

We recommend the department ensure that approval decisions made by agencies are accurately established in SABHRS.

Accounting Issues

The department did not follow state policy when accounting for federal grants.

State law requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money, for which it is accountable, in accordance with generally accepted accounting principles. We reviewed various programs and activities of the department and noted several accounting errors. This report section identifies areas where transactions recorded by the department resulted in misstatements on the accounting records.

Findings and Recommendations

Over the past five years, the department has started to receive federal funding. There are several state policies in effect to guide the department on how to appropriately account for the federal funds. During the audit we noted the following instances where state policy was not followed in regards to federal funds.

- ▶ The General Services Division received a subgrant from the Department of Military Affairs (DMA) in fiscal year 2004-05. The division recorded expenditures for allowable items based on the grant award and then requested reimbursement from the DMA. When the reimbursement was received, the division abated the expenditures rather than record revenue. State policy does not allow expenditure abatements for this type of activity. Additionally, state policy specifically states money received from a subgrant should be recorded as federal revenue. As a result, in fiscal year 2004-05 Repair and Maintenance and Contracted Services are understated by \$198,500 and \$94,000, respectively. Federal revenue in the Federal Special Revenue Fund is understated by \$292,500. Department personnel stated they did not want expenditures to be recorded on both DMA and the department's records and they thought an expenditure abatement was the best way to accomplish this.
- ▶ State policy requires federal revenues received directly from a federal agency or subgranted from another state agency to be recorded to the federal revenue class. We noted one grant received by the General Services Division and one grant received by the Information Technology Services Division as subgrants from DMA were recorded to a revenue class other than federal. As a result in fiscal year 2005-06 Grants, Contracts, Donations and Abandements and Miscellaneous revenue in the Federal Special Revenue Fund are overstated by \$19,734 and \$177,338, respectively. Federal revenue is understated by \$197,072. Department personnel stated they did not know where to record the revenue but thought the grants and miscellaneous revenue classes were appropriate.
- ▶ Because in many cases federal grants operate on a cost reimbursement basis where revenue is earned when allowable expenditures are incurred, state accounting policy requires revenues to equal expenditures in most federal funds at fiscal year-end. We noted one fund in fiscal year 2004-05 and two funds in fiscal year 2005-06 where the department did not make the necessary entries to ensure federal revenues equaled federal expenditures. In fiscal year 2004-05, the one fund's accounts receivable and revenue were understated by \$90,887. In fiscal year 2005-06, the combined effect is deferred revenue is

Findings and Recommendations

understated by \$2,712, accounts receivable is understated by \$3,210, and revenue is understated by \$498. In fiscal year 2004-05, department personnel stated they attempted to make the correct entries to zero out fund balance but did not include all necessary activity in their analysis. In fiscal year 2005-06, the division was new to receiving federal funds and was not aware any entries were necessary.

In order to accurately reflect the department's federal fund's activity, the department should ensure all divisions are aware of state policy and that it is followed when recording transactions.

Recommendation #7

We recommend the department:

- A. Ensure all divisions are aware of state accounting policy related to accounting for federal funds.**
- B. Comply with state accounting policy related to recording expenditure abatements, federal fund balances, and revenue classes.**

Federal Compliance

The department does not have adequate controls to ensure the Statewide Cost Allocation Plan (SWCAP) was submitted in a timely manner or accurately prepared according to federal regulations.

The Montana Single Audit Report (05-02) for the two fiscal years ended June 30, 2005, was issued in March 2006. Our audit work completed for this report (05-02) resulted in a recommendation to the department. The following section discusses the results of our follow-up on this recommendation during this audit. We determined the recommendation had not been implemented as of the end of fiscal year 2005-06.

The work performed for the Single Audit Report concluded that controls were inadequate to ensure the SWCAP was accurately completed. We noted during this audit that the department has specific procedures they plan to develop and use for the next submitted SWCAP to address the control portion of the recommendation and ensure the SWCAP is accurately completed.

Findings and Recommendations

However, due to the timing of the SWCAP and this audit, we could not test the controls to determine if the recommendation was fully implemented.

The department contracts with an outside party to prepare and submit the state's annual SWCAP. During our work for the single audit report we noted that in fiscal years 2002-03, 2003-04, and 2004-05 the contractor submitted the SWCAPs up to 30 months late. At the time of the Single Audit Report, the fiscal year 2005-06 SWCAP had not yet been submitted, but an extension had been granted through October 31, 2005. However, during this audit we found the fiscal year 2005-06 cost allocation plan was actually submitted on March 15, 2006; five months after the extension deadline. According to federal regulations, cost allocation plans should be submitted within six months prior to the beginning of each of the state's fiscal years in which it proposes to claim central service costs. Extensions may be granted on a case-by-case basis.

Contractor personnel stated another formal extension was not requested at the end of October, but they had discussed the current SWCAP with the federal agent. The untimely submission of the annual SWCAP has not affected the review and approval process as the federal government is behind schedule on their review of SWCAPs. The state currently has four years of plans waiting for negotiation and approval. However, this does not alleviate the state from its responsibility to submit the Statewide Cost Allocation Plan in a timely manner.

Recommendation #8

We recommend the department develop adequate controls to ensure the SWCAP is accurately completed and submitted timely in accordance with federal regulations.

Statewide Fueling Network and Purchasing Card

In fiscal year 2005-06, the department changed the way the state's purchasing card and statewide fueling network programs were funded. Both of these programs are internal service funds and

Findings and Recommendations

should be funded with user charges. The programs are currently funded with volume discount rebates from credit card companies involved in the programs. The following sections discuss issues related to this change in funding these programs.

Recommendation #12, which starts on page 22, further addresses whether fees were commensurate with costs for these funds.

Credit Card Rebates

The department received volume discount rebates and did not allocate the rebates back to the paying federal fund.

The department negotiated volume discounts from credit card servicers on purchases made using the state's procurement card and fuel network card. In fiscal year 2005-06, the department received rebates of \$ 93,492 and \$15,165 in excess of costs in the procurement card and fueling network card programs, respectively. A portion of these rebates resulted from purchases charged to federal funds.

Federal regulations state that costs paid with federal funds must be net of all applicable credits to be allowable under federal awards. The regulations describe applicable credits as those receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to federal awards. Such transactions include purchase discounts and rebates. The department has not developed a method of allocating the rebates as a reduction of federally funded expenditures made with the two types of credit cards.

In fiscal year 2005-06, operating expenditures from federal funds totaled approximately 30 percent of total state operating expenditures. As a result we question costs of 30 percent of the total excess rebates, or \$32,597 paid from all federal programs using the procurement card.

Department personnel stated the volume discounts come from the credit card servicers, not the merchants who sold goods and services to state agencies. As a result, the department believes these payments constitute an incentive payment to induce the department

Findings and Recommendations

to conduct credit card activity with the servicer rather than a reduction of the good or service purchased. We believe the volume discounts are an applicable credit because the discount is a percentage of total credit card purchases and off-sets the cost of providing the service. The volume discount rebates would not even exist without the individual transactions occurring. Additionally, state policy addressing volume discounts and rebates of other state activity, such as state fund volume discounts and accommodation tax rebates, requires that the discounts or rebates be credited to the fund that originally made the payment.

Department management further stated that developing and maintaining the data necessary to properly allocate could be expensive. The department cannot identify the funding source from the credit card statements. The department charges the participating agency and agency personnel assign the expenditures to funds and expenditure codes on the state's accounting records. On the state's accounting system, expenditure codes identify the type of good or service purchased, but not whether it was purchased with a credit card. As a result, the department currently does not have access to data from which to allocate the rebate to federal funding sources. Under federal regulations, the department must consider these costs in determining the charges to federal funds. Including these rebates in the statewide cost allocation plan is one method the department could consider to properly account for the rebates.

Recommendation #9

We recommend the department allocate volume discount rebates from credit card companies to federal expenditures as required by federal regulations.

Incorrect Fund

The department changed funding methods for two internal service funds and established a state special revenue fund to record the excess.

Findings and Recommendations

The Statewide Fueling Network and Purchasing Card are two programs designated by the legislature as internal service funds. As such, the programs should be funded from user charges. The change in user charges to volume discount rebates caused both programs to no longer meet the definition of an internal service fund under section 17-2-102, MCA.

In response to the change in funding methods for the programs, department personnel recorded revenue in excess of the costs to operate the program's internal service funds in a newly created state special revenue fund. Since the previous legislature designated both programs in internal service funds for the 2007 biennium, the department intends to seek legislation during the next session to move the activity to a state special revenue fund. However, during the audit period, the department did not have the authority to move revenue related to these operations to another fund. As a result, miscellaneous revenue on the fiscal year 2005-06 Schedule of Revenues & Transfers-In is overstated by \$108,659 in the State Special Revenue Fund and understated by the same amount in the Internal Service Fund.

Recommendation #10

We recommend the department:

- A. Record all revenue for the statewide fueling network and purchasing card programs in the fund approved by the legislature.**
- B. Seek legislation to move the statewide fueling network and purchasing card programs to a fund that is appropriate under state law.**

State Compliance

The department provides various services to other state agencies such as accounting and financial reporting, warrant writing, state treasury services, insurance coverage, and personnel management. Provisions in state law document requirements the department must follow for the specific services. As such, the department is charged with complying with over 260 laws specific to the department.

Findings and Recommendations

During the current audit, we tested compliance with approximately 90 of these laws. Additionally, the department must comply with state laws applicable to all state agencies such as ensuring fees are commensurate with costs for all internal service funds.

The following items discuss state law requirements the department did not comply with during the audit period.

Compliance With State Laws Specific to Department

We identified four instances of non-compliance related to contract preferences, recycling, position classes, and the Burial Preservation Board.

- ▶ Section 18-1-110, MCA, states, “For any contract awarded by a state agency for a state construction project within the exterior boundaries of an Indian reservation..., there must be inserted in the bid specification and the contract a provision, in language approved by the commissioner of labor and industry, implementing the requirements of this subsection. The bid specification and the contract must provide that a preference in hiring for positions of employment be given to Indian residents of the reservation who have substantially equal qualifications for any position.” We reviewed the standard bidding, building, and lease contracts and noted there is no provision on hiring preferences. Department personnel stated the language requires contractors to follow “all state and federal laws” and adherence to all regulations is up to the contractor. However, this state law requires a specific provision. Additionally, specific contract language would assist the department in its duty to ensure contractors are adhering to hiring preference requirements.
- ▶ Section 75-10-806(5), MCA, requires the department to establish a joint recycling market development task force to assist in developing purchasing specifications for recycled products, identifying mechanisms and barriers to purchasing recycled materials, and educating state employees on how to reduce waste and recycle in the workplace. A task force was created, but ceased meeting about three years ago. As of June 2006, a task force had not been reestablished. Department personnel stated coordination or suggestions for recycling are done on a one-on-one basis with agencies so a task force has not been necessary. However, state law requires a task force and the department should comply with the law.

Findings and Recommendations

- ▶ Section 2-18-204(1), MCA, requires the department to determine classes of positions of employees of each agency or program before the beginning of each fiscal year based on documentation submitted by each agency. The department has not required agencies to submit documentation in many years. According to department personnel, the department complied with this law when the law was first created in the early 1970s. Since the establishment of classes of positions for each agency, the department does not require agencies to submit documentation to redetermine classes. Instead, they comply with section 2-18-203, MCA, by reviewing and updating classes as needed. Current department procedures suggest state law regarding establishment of classes of positions may be out-dated.
- ▶ Section 22-3-804, MCA, states the requirements and available members for the Burial Preservation Board. In December 2002, the department determined an attorney should be present on the board and the Governor appointed an attorney to the board. An attorney is not a required member of the board provided for in state law and the state law does not allow for members in addition to those specifically listed. If department personnel believe an attorney is necessary for the Burial Preservation Board, one of the thirteen required members could be an attorney, as well as fit the other requirements in law.

Recommendation #11

We recommend the department:

- A. Comply with section 18-1-110, MCA, and include hiring preference provisions in contracts.**
- B. Comply with section 75-10-806(5), MCA, and establish a joint recycling market development task force.**
- C. Comply with section 2-18-204(1), MCA, and determine classes of positions of employees each fiscal year.**
- D. Comply with section 22-3-804, MCA, and appoint members of the Burial Preservation Board as the law allows.**
- E. Or seek legislation to amend the laws.**

Internal Service Funds

In accordance with section 17-8-101(6), MCA, we reviewed the rates charged and the fund equity of the department's Internal Service Funds. The following table summarizes the various funds and

Findings and Recommendations

indicates if the rates charged during the audit period were
commensurate with costs as required by law.

Table 1
Internal Service Funds

Internal Service Fund and Description	Fund Equity Reasonable	Rates Commensurate with Costs
ISD Proprietary - Manages information technology services for state government such as central mainframe computer processing, local and long-distance telephone networking, electronic government planning and coordination, and the State Accounting, Budgeting and Human Resource System.	YES	YES
Intergovernmental Training - Provides a variety of training products and facilitation services to state agencies.	YES	YES
Rent And Maintenance - Provides maintenance, security, and custodial services for buildings in the state capitol area.	YES	YES
Print & Mail Services - Provides mail room staff to operate a centralized mailing operation and services for printing and administration of a photocopy pool.	YES	YES
Central Stores - Purchases, warehouses, sells, and delivers commonly used items to all state agencies and other governments such as office supplies, paper, janitorial supplies, and printed forms.	YES	YES
Agency Insurance Int. Svc. - Provides for the investigation, defense, and payment of bodily injury and property damage claims incurred by all agencies, officers, and employees of the State of Montana.	YES	YES
Management Services - Coordinates preparation of the department's biennial budget for submission to the Office of Budget of Program Planning and its presentation to the legislature, processes budget change documents, and monitors approved budgets for compliance with state law and legislative intent. This also includes legal services which advises all divisions within the department on legal matters and the Human resource unit which processes payroll and provides human resource functions for all divisions of the department.	YES	NO
Group Benefits Claims - Provides state employees, retirees, and their dependents with adequate medical, dental, and life and other related group benefits.	NO	NO
Statewide Fueling Network - Provides for fueling of public vehicles through an integrated commercial and public fueling network.	NO	NO
Payroll Fund - Provides for preparation and distribution of payroll and associated withholding and deductions of state employees.	YES	YES
Warrant Writing - Provides the warrant writer program to most state agencies for check writing and automatic-deposit capabilities.	NO	NO
Procurement Card Purchases - Administers the state procurement card contract for the automated processing of small purchases.	NO	NO

Internal Service Funds with a "No" are discussed on pages 24 through 26

Source: Compiled by the Legislative Audit Division.

Findings and Recommendations

The department did not ensure fees were commensurate with costs for the following five internal service funds.

Group Benefits

We reviewed the fees, costs, and fund balance of the group benefits fund. Section 2-18-812, MCA, states, “The department shall maintain state employee group benefit plans on an actuarially sound basis and maintain reserves sufficient to liquidate the unrevealed claims liability and other liabilities of state employee group benefit plans.” The department expended between \$84 and \$85 million in benefit claims in fiscal year 2004-05 and 2005-06. At the end of fiscal year 2004-05 and 2005-06, the department had an ending fund balance of \$21 million and \$26 million, respectively. This amount is net of unrevealed claims of approximately \$10 million recorded on the state’s accounting records in each fiscal year. The department had working capital in fiscal year 2004-05 and 2005-06 of \$23.6 million and \$29.5 million, respectively. This is \$9.3 million and \$13.6 million more than the 60-day working capital allowed by federal regulations.

Additionally, in each of the two fiscal years, revenues exceeded expenditures. In fiscal year 2004-05, revenues exceeded expenditures by almost \$12 million. In fiscal year 2005-06, excess revenue charged totaled approximately \$5 million. Therefore, fees are not commensurate with costs for either of the two fiscal years.

Department personnel stated that as a result of inadequate reserves and an audit finding in 2003, the department aimed to maintain a reserve at the level required in statute plus an additional amount equal to 2 to 3 months of expenditures. Department personnel stated the intent of this funding goal was to permit sufficient time for the department to make adjustments to the plan, if necessary, without the drastic changes required in 2003.

Subsequent to the department reviewing our draft audit report, the department requested information from their actuary regarding the reasonableness of their excess reserves. The actuary letter dated September 29, 2006, states in addition to claims that have been

Findings and Recommendations

incurred but not reported (IBNR), the department could have contingency reserves of 5 percent to 10 percent of projected annual claims and a reserve for “catastrophic” claims. The actuary letter did not state these reserves were required. The prior actuary report did not make any recommendations related to reserves in excess of IBNR.

Although the actuary letter stated additional reserves may be appropriate, our analysis of the group benefits internal service fund indicates reserves are still in excess of the percentages noted by the actuary’s letter and what is allowed in state law. Neither the department’s 2- to 3-month funding goal nor the actuary’s comments on excess reserves are written in the department’s rate setting policy.

Department personnel should adjust premiums to ensure that revenues do not exceed expenditures during a fiscal year, reserve amounts do not exceed what is allowed by state law or policy, and working capital is within what is allowed by federal regulations.

Management Services

We reviewed the fees, costs, and fund balance of the management services fund. In fiscal year 2005-06, the department merged three separate functions into one internal service fund; legal services, human resources, and management services, however, each function had a separate rate in law for the audit period. Our review of the fees, costs, and fund balance of this one internal service fund indicated that two of the functions did not recover their operation costs. The legal services function collected revenue in excess of their expenditures by \$11,951 in fiscal year 2005-06. Additionally, in fiscal year 2004-05, the function under-recovered its costs by \$27,969.

The management services function also collected revenue in excess of their expenditures in both fiscal years. In fiscal year 2005-06 revenue exceeded expenditures by \$65,263. In fiscal year 2004-05 the overcharges amounted to \$65,442. Department personnel stated that fees are determined far in advance of when they are charged and any overage or shortfalls in the fees are taken into consideration

Findings and Recommendations

when fees are calculated for the next biennium. However, state law sets the maximum rates that can be charged. Department personnel can charge rates less than stated in law if charging the maximum results in excess revenue.

Additionally, department personnel stated they expect costs to increase in future years, and as a result, they expect rates to also increase. Based on revenues exceeding expenditures in both years of the audit period and the plan to increase rates in the future, it does not appear department personnel are analyzing the revenues and expenditures in this fund to ensure fees are commensurate with costs.

Statewide Fueling Network and Purchasing Card

Recommendations #9 and #10 discuss issues related to the Statewide Fueling Network and Purchasing Card Internal Service Funds. As discussed in these recommendations, the funds were not financed by user charges in fiscal year 2005-06. Therefore, fees were not commensurate with costs during the fiscal year.

Warrant Writer

We reviewed the fees, costs, and fund balance of the warrant writer fund. We noted that during fiscal year 2005-06, the fund did not recover its costs of operating. Total expenditures exceeded revenues by \$71,822 during the year. Department personnel stated they purchased warrants at the end of fiscal year 2003-04. Due to the timing of this purchase, no warrants needed to be purchased in fiscal year 2004-05. In fiscal year 2005-06, warrants again needed to be purchased which cost approximately \$70,000. Department personnel further stated in fiscal year 2005-06 the department intentionally collected less revenue than expenditures in order to reduce their working capital to 45 days. A 45-day working capital amounts to approximately \$109,000, or \$34,000 more than the fund had. Therefore, based on the above, fees were not commensurate with costs for fiscal year 2005-06. Department personnel should ensure the cost of warrants are figured into the rate setting process. The department plans to increase rates effective in fiscal years 2006-07 and 2007-08 to ensure all costs are recovered.

Findings and Recommendations

Recommendation #12

We recommend the department comply with section 17-8-101(6), MCA, and ensure internal service fund rates are commensurate with costs or seek legislation to move the activity to a more appropriate fund type.

Disclosure Issue

E-government Revenues and Expenditures

The Montana Electronic Government Services Act of 2001 established statutory requirements related to developing the state's internet services (e-services). The department has a contract with a vendor to process the state's e-government transactions. During the audit period, the state had approximately 81 e-services the vendor developed, implemented, and/or maintains. The contract with the vendor is funded with state-mandated fees for some of the e-services processed by the vendor.

Of the state's 81 e-services, 32 generate transaction fees that are retained by the vendor. These 32 services subsidize the other 49 services. The Examination of the Delivery of E-Government Services performance audit (06P-08) estimated that between calendar years 2001 to 2005, the revenue generating e-services subsidized non-revenue generating e-services by a total of \$582,825.

During this audit, we further reviewed the accounting of revenue and expenditures from various e-services. In reviewing accounting records at several state agencies, we noted some agencies did not record financial activity related to the e-service transaction fees. The department policy written to give guidance on this matter instructs agencies to record transaction fees as expenditures when the fees are paid out of the revenues which would have otherwise been collected by the agency. The policy states fees collected in addition to the revenue charged by the agency are revenue to the third party. Since the fees are established by the legislature or through the contract by the agencies, the fee revenue and subsequent payments to vendors should be recorded on the state's accounting records. The transaction fees are a result of the state hiring an agent to process state business via the internet. The cost of paying the agent is a state expense and should be recorded on the accounting records. The performance audit (06P-08) estimated approximately \$1.5 million in revenues and expenditures were not recorded for two agencies reviewed.

Section 17-1-102(2), MCA, requires the department to prescribe a uniform accounting system for reporting receipt, use, and disposition

of public money in accordance with generally accepted accounting principles. The following list discusses items we believe indicate the department should modify state accounting policy to ensure all revenue and expenditure activity resulting from e-government services is recorded on the state's accounting records.

- ▶ The vendor does not set the fees charged. They are set either by statute or through contracts with each agency using the vendor.
- ▶ The vendor cannot provide any services on behalf of the state without the state's consent.
- ▶ Although 49 of the 81 e-services do not generate transaction fee revenue which is retained by the vendor, there is a cost to the vendor to provide these services. The 32 e-services that do generate fee revenue for the vendor pay the costs of the 49 non-fee generating services. Because of the subsidization of costs, the fees retained by the vendor are, in substance, taxes which should be recorded by the state.
- ▶ A user can elect to purchase a good through the internet e-service or go to a state agency and directly purchase the good. If the good is directly purchased, the fee charged is solely for the good received. The state records a fee revenue and expenditures are also recorded in the form of personal services for the state employee assisting the user and the supplies, materials, etc used to process the transaction. If a user elects to purchase the good via the internet, the user is charged a fee for the good and in some cases an additional transaction fee for the convenience of purchasing the good electronically. In this case, the only transaction recorded by the state is a revenue for the amount of the good. The amount paid in addition to the fee for the good is not recorded by the state. Additionally, no expenditure is recorded by the state despite the fact the vendor is not processing the transaction for the state for free.
- ▶ In the situation noted above, the state accounting system incorrectly indicates some of the e-services are provided to the state free of charge by the vendor. In reality, this service is not free to the consumer and the state records should indicate the gross revenues and expenditures resulting from the transaction and paid by the consumer to the vendor hired by the state to process e-government transactions.

Based on the above discussion we believe the department should modify state accounting policy related to e-government services

transactions to ensure all activity resulting from e-government is recorded on the state's accounting records. This issue is presented for disclosure purposes only and we make no recommendation at this time.

Independent Auditor's Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Administration for each of the fiscal years ended June 30, 2006, and 2005. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Administration for each of the fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 18, 2006

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund	Agency Fund
FUND BALANCE: July 1, 2005	\$ 323,302,614	\$ 111,856	\$ (1,340,163)	\$ 179,653	\$ 7,562,920	\$ 75,868	\$ 20,775,455	\$ 666,186	\$ 205,221	\$ (795,413)	\$ (36,277)	\$ (693,008)
PROPERTY HELD IN TRUST: July 1, 2005												693,008
ADDITIONS												
Budgeted Revenues & Transfers-In	41,095,507	3,969,334	4,623,705		37,266,622	46,392,233	176,221,209					
NonBudgeted Revenues & Transfers-In	215,134	1,679,516	242,202	23,063,468	10,689,932	92,253	588,676	489,191	1,054,532			
Prior Year Revenues & Transfers-In Adjustments	195,235	1,560	(103,781)		(14,856)	224	826,383		150,000			
Direct Entries to Fund Balance	231,953,219	26,538,065	3,062,325		6,417,055	538,297	41,349	20,041		17,944,418	870,142	693,008
Total Additions	273,459,095	32,188,475	7,824,451	23,063,468	54,358,753	47,023,007	177,677,617	509,232	1,204,532	17,944,418	870,142	\$ 693,008
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	149,970,753	22,477,814	4,645,529		12,308,881	36,540,893	162,896,861			18,916,960	897,802	
NonBudgeted Expenditures & Transfers-Out	23,887,053	173,833		22,087,420	3,581,937	9,823,837	(2,855,229)	454,579	419,819			
Prior Year Expenditures & Transfers-Out Adjustments	992,699	(635,067)	(1,615)			(14,290)	517,302		28			
Reductions to Property Held in Trust												693,008
Total Reductions	174,850,505	22,016,580	4,643,914	22,087,420	15,890,818	46,350,440	160,558,934	454,579	419,847	18,916,960	897,802	\$ 693,008
FUND BALANCE: June 30, 2006	\$ 421,911,204	\$ 10,283,751	\$ 1,840,374	\$ 1,155,701	\$ 46,030,855	\$ 748,435	\$ 37,894,138	\$ 720,839	\$ 989,906	\$ (1,767,955)	\$ (63,937)	0
PROPERTY HELD IN TRUST: June 30, 2006												0

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal and Replacement Fund	Agency Fund
FUND BALANCE: July 1, 2004	\$ 160,688,862	\$ 70,554	\$ 19,904,615	\$ 1,694,894	\$ 9,692,358	\$ 494,634	\$ (1,687,879)	\$ 1,073,526	\$ (94,627)	\$ (293,130)	\$ (179,865)	\$ (693,008)
PROPERTY HELD IN TRUST: July 1, 2004												0
ADDITIONS												
Budgeted Revenues & Transfers-In	28,536,867	3,968,038	1,847,707		4,010,574	39,523,694	71,691,754					
NonBudgeted Revenues & Transfers-In	64,248	1,669,077	4,366	46,874,297	8,806,380	71,037	98,483,920	188,943	478,351			
Prior Year Revenues & Transfers-In Adjustments	33,546	3,502,739	207,812		(105,232)		(9,468)					
Direct Entries to Fund Balance	168,011,129	8,903,496	(17,226,978)		6,176,315	529,932	173,243			4,371,699	979,106	
Additions to Property Held in Trust												693,008
Total Additions	196,645,790	18,043,350	(15,167,093)	46,874,297	18,888,037	40,124,663	170,339,449	188,943	478,351	4,371,699	979,106	693,008
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	25,496,435	18,389,815	5,874,508		17,406,150	33,224,463	149,896,031			4,873,982	835,553	
NonBudgeted Expenditures & Transfers-Out	4,861,275	42,643	203,177	48,389,538	3,611,390	7,344,497	(2,197,535)	596,283	167,824			
Prior Year Expenditures & Transfers-Out Adjustments	3,674,328	(430,410)			(65)	(25,531)	177,619		10,679		(35)	
Reductions in Property Held in Trust												
Total Reductions	34,032,038	18,002,048	6,077,685	48,389,538	21,017,475	40,543,429	147,876,115	596,283	178,503	4,873,982	835,518	0
FUND BALANCE: June 30, 2005	\$ 323,302,614	\$ 111,856	\$ (1,340,163)	\$ 179,653	\$ 7,562,920	\$ 75,868	\$ 20,775,455	\$ 666,186	\$ 205,221	\$ (795,413)	\$ (36,277)	\$ (693,008)
PROPERTY HELD IN TRUST: June 30, 2005												693,008

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		\$ 227,970				\$ 4,300				\$ 232,270
Taxes	\$ 3,952	58				429	\$ 1,223			5,662
Charges for Services	7,031,257	3,260,375	\$ 2,700		\$ 502,278	5,965,730	168,710,169			185,472,509
Investment Earnings	19,532,242	36,487	1,092	\$ 172,577	515,950	212,288	2,024,136		\$ 25,369	22,520,141
Fines, Forfeits and Settlements	4,509,533									4,509,533
Sale of Documents, Merchandise and Property						39,918,414	4,688,518			44,606,932
Rentals, Leases and Royalties	92									92
Contributions and Premiums									796,587	796,587
Miscellaneous	836,237	787,819	222,468		(60,992)	5,776	863,549			2,654,857
Grants, Contracts, Donations and Abandonments		129,656	19,734					\$ 489,191		638,581
Other Financing Sources	9,386,343	1,208,045		22,890,891	46,984,462		1,348,673		382,576	82,200,990
Federal	206,220		4,516,132							4,722,352
Capital Contributions						377,773				377,773
Total Revenues & Transfers-In	41,505,876	5,650,410	4,762,126	23,063,468	47,941,698	46,484,710	177,636,268	489,191	1,204,532	348,738,279
Less: Nonbudgeted Revenues & Transfers-In	215,134	1,679,516	242,202	23,063,468	10,689,932	92,253	588,676	489,191	1,054,532	38,114,904
Prior Year Revenues & Transfers-In Adjustments	195,235	1,560	(103,781)		(14,856)	224	826,383		150,000	1,054,765
Actual Budgeted Revenues & Transfers-In	41,095,507	3,969,334	4,623,705	0	37,266,622	46,392,233	176,221,209	0	0	309,568,610
Estimated Revenues & Transfers-In	37,304,045	11,745,867	6,521,731		106,798,670	42,265,528	174,032,410			378,668,251
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 3,791,462	\$ (7,776,533)	\$ (1,898,026)	\$ 0	\$ (69,532,048)	\$ 4,126,705	\$ 2,188,799	\$ 0	\$ 0	\$ (69,099,641)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		\$ 106,035				\$ 2,350				\$ 108,385
Charges for Services	\$ (1,878,272)	(669,329)	\$ 5,400		\$ 102,278	(223,772)	\$ 1,992,225			(671,470)
Investment Earnings	5,581,104	23,463	(908)		130,914	74,940	1,257,009			7,066,522
Fines, Forfeits and Settlements	(817,185)									(817,185)
Sale of Documents, Merchandise and Property						3,918,414	408,518			4,326,932
Rentals, Leases and Royalties	(94)									(94)
Miscellaneous	530,247	(210,671)					(1,381,319)			(1,061,743)
Grants, Contracts, Donations and Abandonments		(9,886)								(9,886)
Other Financing Sources	376,863	(1,254,145)			(69,765,240)		(87,634)			(70,730,156)
Federal	(1,201)	(5,762,000)	(1,902,518)							(7,665,719)
Capital Contributions				\$		354,773				354,773
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 3,791,462	\$ (7,776,533)	\$ (1,898,026)	\$ 0	\$ (69,532,048)	\$ 4,126,705	\$ 2,188,799	\$ 0	\$ 0	\$ (69,099,641)

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		\$ 464,888				\$ 2,850				\$ 467,738
Taxes	\$ 3,619	3				205	\$ 772			4,599
Charges for Services	6,958,982	2,018,329			\$ 228,978	5,527,948	161,625,658			176,359,895
Investment Earnings	10,840,870	18,533	\$ 784	\$ 71,445	43,684	64,646	793,057		\$ 10,556	11,843,575
Fines, Forfeits and Settlements	4,362,377	191,866								4,554,243
Sale of Documents, Merchandise and Property						33,812,627	4,568,085			38,380,712
Rentals, Leases and Royalties	365									365
Contributions and Premiums									467,795	467,795
Miscellaneous	112	1,476,485	4,366		60,802	26,969	1,007,392			2,576,126
Grants, Contracts, Donations and Abandonments		175,895						\$ 188,943		364,838
Other Financing Sources	6,266,548	4,793,855		46,802,852	12,378,258		2,171,242			72,412,755
Federal	201,788		2,054,735							2,256,523
Capital Contributions						159,486				159,486
Total Revenues & Transfers-In	28,634,661	9,139,854	2,059,885	46,874,297	12,711,722	39,594,731	170,166,206	188,943	478,351	309,848,650
Less: Nonbudgeted Revenues & Transfers-In	64,248	1,669,077	4,366	46,874,297	8,806,380	71,037	98,483,920	188,943	478,351	156,640,619
Prior Year Revenues & Transfers-In Adjustments	33,546	3,502,739	207,812		(105,232)		(9,468)			3,629,397
Actual Budgeted Revenues & Transfers-In	28,536,867	3,968,038	1,847,707	0	4,010,574	39,523,694	71,691,754	0	0	149,578,634
Estimated Revenues & Transfers-In	32,491,290	10,277,529	1,309,214		77,121,411	42,558,455	161,532,232			325,290,131
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,954,423)	\$ (6,309,491)	\$ 538,493	\$ 0	\$ (73,110,837)	\$ (3,034,761)	\$ (89,440,478)	\$ 0	\$ 0	\$ (175,711,497)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		\$ 351,913				\$ 850				\$ 352,763
Charges for Services	\$ 4,033,676	(56,304)			\$ (22)	(224,907)	\$ (90,134,185)			(86,381,742)
Investment Earnings	(6,587,308)	(64,237)	\$ (1,215)		(316)	(81,435)	(237,217)			(6,971,728)
Fines, Forfeits and Settlements	(437,036)	(765,134)								(1,202,170)
Sale of Documents, Merchandise and Property						(2,888,755)	(201,915)			(3,090,670)
Rentals, Leases and Royalties	365									365
Miscellaneous	(12)	1,134,367					(466,757)			667,598
Grants, Contracts, Donations and Abandonments		71,922								71,922
Other Financing Sources	(770,299)	(1,220,018)			(73,110,499)		1,199,596			(73,901,220)
Federal	(193,809)	(5,762,000)	539,708							(5,416,101)
Capital Contributions						159,486				159,486
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,954,423)	\$ (6,309,491)	\$ 538,493	\$ 0	\$ (73,110,837)	\$ (3,034,761)	\$ (89,840,478)	\$ 0	\$ 0	\$ (175,711,497)

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Administration & Financial Services Division	Appellate Defender	Architecture & Engineering	Banking and Financial Division	Corrections	Departments & Agencies	DPHHS	General Services Program	Health Care & Benefits Division	Information Technology Service Division	Montana Consensus Council	Montana State Lottery	Risk Management & Tort Defense	State Personnel Division	State Tax Appeal Board	University System	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																	
Personal Services																	
Salaries	\$ 1,798,087	\$ 122,406	\$ 730,479	\$ 1,529,199				\$ 2,588,370	\$ 413,432	\$ 9,481,870	\$ 88,280	\$ 1,175,042	\$ 602,764	\$ 1,128,843	\$ 201,663	\$	\$ 19,860,435
Hourly Wages								580									580
Other Compensation				600							100	43,006			4,005		47,711
Employee Benefits	511,272	36,758	207,795	416,269				904,173	121,766	2,528,316	26,071	377,063	173,269	337,760	59,815		5,700,327
Personal Services-Other	(16,782)							25,056	(9,694)	200,686		24,322	(4,200)	9,876			229,264
Total	<u>2,292,577</u>	<u>159,164</u>	<u>938,274</u>	<u>1,946,068</u>				<u>3,518,179</u>	<u>525,504</u>	<u>12,210,872</u>	<u>114,451</u>	<u>1,619,433</u>	<u>771,833</u>	<u>1,476,479</u>	<u>265,483</u>		<u>25,838,317</u>
Operating Expenses																	
Other Services	349,648	15,187	62,002	74,729				3,077,817	3,977,982	6,208,188	16,872	5,825,555	4,046,465	212,098	14,757		23,881,300
Supplies & Materials	61,180	5,367	34,722	88,047				334,223	26,873	1,926,159	1,445	208,504	31,970	96,899	5,225		2,820,614
Communications	463,500	5,769	24,383	37,486				3,108,261	69,866	5,226,520	2,975	581,198	19,526	27,100	4,570		9,571,154
Travel	52,548	2,984	29,347	226,057				12,861	11,319	258,014	5,206	37,971	10,760	31,871	3,758		682,696
Rent	158,673	13,635	42,912	104,910				328,944	54,057	7,328,703	5,250	93,242	56,644	80,111	15,228		8,282,309
Utilities								2,317,672				20,094	6,633				2,344,399
Repair & Maintenance	6,935	2	3,162	13,592				1,360,293	1,937	2,027,663	282	11,100	2,454	4,995	1,875		3,434,290
Other Expenses	1,833,870	9,320	70,581	117,107				756,318	425,249	4,294,016	6,941	21,417,398	103,616	51,221	7,982		29,093,619
Goods Purchased For Resale								8,435,742	4,674			1,203,879					9,644,295
Total	<u>2,926,354</u>	<u>52,264</u>	<u>267,109</u>	<u>661,928</u>				<u>19,732,131</u>	<u>4,571,957</u>	<u>27,269,263</u>	<u>38,971</u>	<u>29,398,941</u>	<u>4,278,068</u>	<u>504,295</u>	<u>53,395</u>		<u>89,754,676</u>
Equipment & Intangible Assets																	
Equipment								26,488		(796,403)							(769,915)
Total								<u>26,488</u>		<u>(796,403)</u>							<u>(769,915)</u>
Capital Outlay																	
Buildings					\$ 564,525	\$ 6,382,388	\$ 1,110,674									25,977,520	34,035,107
Other Improvements										160,023							160,023
Total					<u>564,525</u>	<u>6,382,388</u>	<u>1,110,674</u>			<u>160,023</u>						<u>25,977,520</u>	<u>34,195,130</u>
Local Assistance																	
From State Sources	1,136,219														61		1,136,280
From Federal Sources	9,328,284																9,328,284
From Other Income Sources										5,594,192							5,594,192
Total	<u>10,464,503</u>									<u>5,594,192</u>					<u>61</u>		<u>16,058,756</u>
Grants																	
From Federal Sources	159,767																159,767
Total	<u>159,767</u>																<u>159,767</u>
Benefits & Claims																	
From State Sources									94,353,187					6,998			94,360,185
Insurance Payments									841,519				(2,219,080)				(1,377,561)
Total									<u>95,194,706</u>				<u>(2,219,080)</u>	<u>6,998</u>			<u>92,982,624</u>
Transfers																	
Accounting Entity Transfers	33,338,178		1,189,000			16,054,419	346,985	500,000	614,199	20,000		9,110,455	296,251	150,000		20,000	61,639,487
Intra-Entity Expense	125,000,000																125,000,000
Total	<u>158,338,178</u>		<u>1,189,000</u>			<u>16,054,419</u>	<u>346,985</u>	<u>500,000</u>	<u>614,199</u>	<u>20,000</u>		<u>9,110,455</u>	<u>296,251</u>	<u>150,000</u>		<u>20,000</u>	<u>186,639,487</u>
Debt Service																	
Bonds	22,087,420					77,117											22,164,537
Loans									976								976
Capital Leases										31,394							31,394
Installment Purchases								32,050									32,050
Total	<u>22,087,420</u>					<u>77,117</u>		<u>32,050</u>	<u>976</u>	<u>31,394</u>							<u>22,228,957</u>
Total Expenditures & Transfers-Out	\$ <u>196,268,799</u>	\$ <u>211,428</u>	\$ <u>2,394,383</u>	\$ <u>2,607,996</u>	\$ <u>564,525</u>	\$ <u>22,513,924</u>	\$ <u>1,457,659</u>	\$ <u>23,808,848</u>	\$ <u>100,907,342</u>	\$ <u>44,489,341</u>	\$ <u>153,422</u>	\$ <u>40,128,829</u>	\$ <u>3,127,072</u>	\$ <u>2,137,772</u>	\$ <u>318,939</u>	\$ <u>25,997,520</u>	\$ <u>467,087,799</u>
EXPENDITURES & TRANSFERS-OUT BY FUND																	
General Fund	\$ 161,559,577	\$ 211,428			\$ 213	\$ 10,786,782		\$ 639,113		\$ 413,518	\$ 69,040			\$ 851,895	\$ 318,939	\$	\$ 174,850,505
State Special Revenue Fund	9,028,013		\$ 1,205,383	\$ 2,607,996	203,636	646,432	\$ 601,420	36,959	\$ 34,112	6,407,115	84,382		\$ 296,251	41,774		823,107	22,016,580
Federal Special Revenue Fund	538,704					2,938,015	117,660	20,224		1,029,311							4,643,914
Debt Service Fund	22,087,420																22,087,420
Capital Projects Fund	524,179		1,189,000		249,524	7,639,813	621,490	500,000		160,023						5,006,789	15,890,818
Enterprise Fund	297,492				111,152			560,812	5,245,886			\$ 40,128,829		6,269			46,350,440
Internal Service Fund	1,778,835					502,882	117,089	22,051,740	95,207,525	36,479,374			2,830,821	1,237,806		352,862	160,558,934
Private Purpose Trust Fund	454,579																454,579
Pension Trust Fund									419,819					28			419,847
Unexpended Plant Fund																18,916,960	18,916,960
Renewal & Replacement Fund																897,802	897,802
Total Expenditures & Transfers-Out	196,268,799	211,428	2,394,383	2,607,996	564,525	22,513,924	1,457,659	23,808,848	100,907,342	44,489,341	153,422	40,128,829	3,127,072	2,137,772	318,939	25,997,520	467,087,799
Less: Nonbudgeted Expenditures & Transfers-Out	35,780,840	(37)	1,189,000			13,092,937		57,885	1,893,990	153,919	(32)	9,573,709	(4,116,158)	(52,803)			57,573,250
Prior Year Expenditures & Transfers-Out Adjustments	1,000,583		86	1,184				31,752		(352,261)		(22,840)	9,612	192,478	(1,538)		859,056
Actual Budgeted Expenditures & Transfers-Out	159,487,376	211,465	1,205,297	2,606,812	564,525	9,420,987	1,457,659	23,719,211	99,013,352	44,687,683	153,454	30,577,960	7,233,618	1,998,097	320,477	25,997,520	408,655,493
Budget Authority	160,577,237	217,222	1,325,974	2,871,692	13,267,363	161,956,263	19,069,211	24,447,453	104,128,021	51,851,186	363,812	33,013,256	9,673,393	2,174,660	356,681	303,894,333	889,187,757
Unspent Budget Authority	\$ <u>1,089,861</u>	\$ <u>5,757</u>	\$ <u>120,677</u>	\$ <u>264,880</u>	\$ <u>12,702,838</u>	\$ <u>152,535,276</u>	\$ <u>17,611,552</u>	\$ <u>728,242</u>	\$ <u>5,114,669</u>	\$ <u>7,163,503</u>	\$ <u>210,358</u>	\$ <u>2,435,296</u>	\$ <u>2,439,775</u>	\$ <u>176,563</u>	\$ <u>36,204</u>	\$ <u>277,896,813</u>	\$ <u>480,532,264</u>
UNSPENT BUDGET AUTHORITY BY FUND																	
General Fund	\$ 611,033	\$ 5,757			\$ 7,787	\$ 2,512,134		\$ 7,401		\$ 3,547,193				\$ 118,600	\$ 36,204		\$ 6,846,109
State Special Revenue Fund	7,875		\$ 120,677	\$ 264,880	226,285	45,138,472	\$ 3,530,687		\$ 6,162	933,406	\$ 207,358		\$ 319,331			\$ 2,515,356	53,270,489
Federal Special Revenue Fund	376,966				4,786,077	22,922,355	2,821,162	49,776		2,290,595	3,000						33,249,931
Capital Projects Fund	691				7,656,544	81,872,012	11,252,903			234,002						58,862,167	159,878,319
Enterprise Fund	21,727				26,145			19,435	379,317			\$ 2,435,296					2,881,920
Internal Service Fund	71,569					90,303	6,800	651,630	4,729,190	158,307			2,120,444	57,963		156,396	8,042,602
Unexpended Plant Fund																215,104,353	215,104,353
Renewal & Replacement Fund																1,258,541	1,258,541
Unspent Budget Authority	\$ <u>1,089,861</u>	\$ <u>5,757</u>	\$ <u>120,677</u>	\$ <u>264,880</u>	\$ <u>12,702,838</u>	\$ <u>152,535,276</u>	\$ <u>17,611,552</u>	\$ <u>728,242</u>	\$ <u>5,114,669</u>	\$ <u>7,163,503</u>	\$ <u>210,358</u>	\$ <u>2,435,296</u>	\$ <u>2,439,775</u>	\$ <u>176,563</u>	\$ <u>36,204</u>	\$ <u>277,896,813</u>	\$ <u>480,532,264</u>

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Administration Financial Services Division	Appellate Defender	Architecture & Engineering	Banking and Financial Services Division	Corrections	Departments & Agencies	DPHHS	General Services	Governor Elect	Information Technology Services Division	Montana Consensus Council	Montana State Lottery	Risk Management & Tort Defense	State Personnel Division	State Tax Appeal Board	University System	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																	
Personal Services																	
Salaries	\$ 1,774,415	\$ 116,021	\$ 703,919	\$ 1,391,268				\$ 2,391,248	\$ 41,207	\$ 8,839,329	\$ 89,505	\$ 1,108,767	\$ 502,077	\$ 1,643,233	\$ 173,606	\$	\$ 18,774,595
Other Compensation				450								28,350			6,525		35,325
Employee Benefits	882,186	35,004	197,773	375,297				802,974	2,625	2,312,684	28,703	348,940	142,449	480,177	49,990		5,658,802
Personal Services-Other	2,278							(27,763)		(71,558)		(30,336)	11,411	11,036			(104,932)
Total	2,658,879	151,025	901,692	1,767,015				3,166,459	43,832	11,080,455	118,208	1,455,721	655,937	2,134,446	230,121		24,363,790
Operating Expenses																	
Other Services	341,240	9,686	135,844	69,024				2,739,859	2,331	15,702,177	27,727	5,222,142	4,362,413	3,482,133	29,236		32,123,812
Supplies & Materials	39,550	1,307	23,051	39,106				191,568	1,474	1,750,571	1,694	345,328	20,713	126,396	6,750		2,547,508
Communications	468,697	7,592	18,971	35,302				2,900,343	2,261	5,482,994	3,334	697,944	15,825	90,019	4,175		9,727,457
Travel	50,764	1,380	26,884	203,080				10,538	90	208,833	7,622	31,778	16,104	46,178	12,723		615,974
Rent	137,457	13,369	38,707	115,541				305,226	11	5,342,090	4,525	97,258	55,440	130,684	15,085		6,255,393
Utilities	630							2,161,691				13,809	6,159				2,182,289
Repair & Maintenance	6,989		3,539	12,056				1,605,397		2,795,845	260	24,823	1,210	18,958	2,146		4,471,223
Other Expenses	1,200,344	5,632	60,684	99,260				555,862		4,669,623	12,503	19,024,937	94,799	460,959	5,232		26,189,835
Goods Purchased For Resale								8,067,047		768,387							8,835,434
Total	2,245,671	38,966	307,680	573,369				18,537,531	6,167	35,952,133	57,665	26,226,406	4,572,663	4,355,327	75,347		92,948,925
Equipment & Intangible Assets																	
Equipment								9,521		3,000,638							3,010,159
Intangible Assets										(929,198)							(929,198)
Total								9,521		2,071,440							2,080,961
Capital Outlay																	
Land & Interest In Land										(32,966)							(32,966)
Buildings					\$ 1,205,177	\$ 5,586,405	\$ 663,203									10,689,150	18,143,935
Other Improvements										277,778							277,778
Total					1,205,177	5,586,405	663,203			244,812						10,689,150	18,388,747
Local Assistance																	
From State Sources	1,754,356														2,015		1,756,371
From Federal Sources	3,745,022																3,745,022
From Other Income Sources										6,147,229							6,147,229
Total	5,499,378									6,147,229					2,015		11,648,622
Grants																	
From Federal Sources	4,750																4,750
Total	4,750																4,750
Benefits & Claims																	
From State Sources														85,957,260			85,957,260
Insurance Payments													(826,213)	479,510			(346,703)
Other Financing Uses/Deduction	26,020,488																26,020,488
Total	26,020,488												(826,213)	86,436,770			111,631,045
Transfers																	
Accounting Entity Transfers	26,207,164		1,282,500			3,414,302	108,346	500,000		10,748		6,222,555	1,144,603	8,954			38,899,172
Total	26,207,164		1,282,500			3,414,302	108,346	500,000		10,748		6,222,555	1,144,603	8,954			38,899,172
Debt Service																	
Bonds	22,369,050					20,264											22,389,314
Loans														6,763			6,763
Capital Leases										28,475							28,475
Installment Purchases								32,050									32,050
Total	22,369,050					20,264		32,050		28,475				6,763			22,456,602
Total Expenditures & Transfers-Out	\$ 85,005,380	\$ 189,991	\$ 2,491,872	\$ 2,340,384	\$ 1,205,177	\$ 9,020,971	\$ 771,549	\$ 22,245,561	\$ 49,999	\$ 55,535,292	\$ 175,873	\$ 33,904,682	\$ 5,546,990	\$ 92,942,260	\$ 307,483	\$ 10,689,150	\$ 322,422,614
EXPENDITURES & TRANSFERS-OUT BY FUND																	
General Fund	\$ 29,454,342	\$ 189,991			\$ 58,500	\$ 20,264		\$ 600,123	\$ 49,999	\$ 2,242,420			\$ 1,108,916	\$ 307,483		\$	\$ 34,032,038
State Special Revenue Fund	3,878,872		\$ 1,191,027	\$ 2,340,384	12,312	2,688,067	\$ 285,955			6,147,229	\$ 175,873		\$ 1,134,367	69,859		\$ 78,103	18,002,048
Federal Special Revenue Fund	289,858					992,218	67,278			4,728,331							6,077,685
Debt Service Fund	48,389,538																48,389,538
Capital Projects Fund	510,894		1,300,845		146,666	4,354,865	418,316	500,000		8,884,342						4,901,547	21,017,475
Enterprise Fund	284,675				987,699			484,832				\$ 33,904,682		4,881,541			40,543,429
Internal Service Fund	1,600,918					965,557		20,660,606		33,532,970			4,412,623	86,703,441			147,876,115
Private Purpose Trust Fund	596,283																596,283
Pension Trust Fund														178,503			178,503
Unexpended Plant Fund																4,873,982	4,873,982
Renewal & Replacement Fund																835,518	835,518
Total Expenditures & Transfers-Out	85,005,380	189,991	2,491,872	2,340,384	1,205,177	9,020,971	771,549	22,245,561	49,999	55,535,292	175,873	33,904,682	5,546,990	92,942,260	307,483	10,689,150	322,422,614
Less: Nonbudgeted Expenditures & Transfers-Out	53,848,461	(34)	1,286,613	768		2,318,143		224,125		2,743,262		7,178,622	(5,190,427)	609,734	(175)		63,019,092
Prior Year Expenditures & Transfers-Out Adjustments	3,669,208	6	(67)	19,830				25,034		(294,604)	649	(28,480)	36,555	(19,653)	(1,790)	(100)	3,406,588
Actual Budgeted Expenditures & Transfers-Out	27,487,211	190,019	1,205,326	2,319,786	1,205,177	6,702,828	771,549	21,996,402	49,999	53,086,634	175,224	26,754,540	10,700,862	92,352,179	309,448	10,689,250	255,996,934
Budget Authority	34,943,401	190,895	1,301,504	2,404,287	14,361,184	163,031,337	19,366,327	23,578,168	50,000	57,413,052	285,386	27,776,556	15,805,322	99,235,615	347,435	306,311,287	766,401,756
Unspent Budget Authority	\$ 7,455,690	\$ 876	\$ 96,178	\$ 84,501	\$ 13,156,007	\$ 156,328,509	\$ 18,594,778	\$ 1,581,766	\$ 1	\$ 4,326,418	\$ 110,162	\$ 1,022,016	\$ 5,104,460	\$ 6,883,436	\$ 37,987	\$ 295,622,037	\$ 510,404,822
UNSPENT BUDGET AUTHORITY BY FUND																	
General Fund	\$ 4,278,915	876						\$ 7,119	\$ 1	\$ 15,497				\$ 91,961	\$ 37,987		\$ 4,432,356
State Special Revenue Fund	2,325,862		\$ 96,154	\$ 84,501	\$ 456,871	\$ 43,419,839	\$ 3,672,107			62,985	\$ 110,162		\$ 36,811	105		\$ 1,926,309	52,191,706
Federal Special Revenue Fund	650,883				4,786,077	25,175,372	2,938,822			1,387,793							34,938,947
Capital Projects Fund	45		24		7,775,762	87,182,379	11,983,849			2,779,801						63,876,019	173,597,879
Enterprise Fund	8,719				137,297			197,168				\$ 1,022,016		320,876			1,686,076
Internal Service Fund	191,266					550,919		1,377,479		80,342			5,067,649	6,470,494			13,738,149
Unexpended Plant Fund																227,864,914	227,864,914
Renewal & Replacement Fund																1,954,795	1,954,795
Unspent Budget Authority	\$ 7,455,690	\$ 876	\$ 96,178	\$ 84,501	\$ 13,156,007	\$ 156,328,509	\$ 18,594,778	\$ 1,581,766	\$ 1	\$ 4,326,418	\$ 110,162	\$ 1,022,016	\$ 5,104,460	\$ 6,883,436	\$ 37,987	\$ 295,622,037	\$ 510,404,822

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Administration

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2006

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, and Debt Service) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust, Pension Trust, and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Notes to the Financial Schedules

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

In order to reflect the total department operations the financial schedules present the combined operations of five separate business units identified on the state's accounting system; Department of Administration, Appellate Defender, Long-Range Building, Montana Consensus Council, and Treasury Unit.

Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

Governmental Fund Category

General Fund – to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the 911 Telecommunications Program, Architecture and Engineering Construction, Public Safety Radio, Financial Institutions Division, and Mineral Impact.

Federal Special Revenue Fund – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal surplus property, GIS federal funding, Homeland Security Grant, GIS-Homeland Security Grant, Job and Growth Tax Relief Act, Public Safety Communications, and the federal portion of the State Fund dividend.

Debt Service Fund – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for the Long-Range Building Program and Information Technology bonds.

Capital Projects Fund – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for activity in the Long-Range Building Program and for activity pertaining to the Department of Revenue tax software replacement project.

Proprietary Fund Category

Internal Service Fund – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department has 16 internal service funds. The three largest internal service funds include ITSD Proprietary, Agency Insurance, and Group Benefits Claims.

Enterprise Fund – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes of similar revenues. Department Enterprise Funds include flexible spending funds, state lottery, and surplus property.

Fiduciary Fund Category

Pension and Other Employee Benefit Trust Funds – to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans. Department pension trust funds include voluntary employee benefit association trust.

Private-Purpose Trust Fund – to account for activity of any trust arrangement not properly reported in a pension fund or an

Notes to the Financial Schedules

investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include stale-dated warrants.

Agency Fund – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the state) clearing account activity, but these must have a zero balance at fiscal year-end. The department agency funds include central payroll, bad debt collection, and the general warrant clearing account.

Plant Funds

Plant Funds – to account for transactions related to construction of university system properties. Because the Architecture and Engineering Division expends funds for university construction projects, the department records activity in the following sub-funds:

Unexpended Plant Funds – comprised of amounts which have been appropriated or designated for construction or purchase of university improvements, buildings, and equipment.

Renewal and Replacement Funds – provide resources for the remodeling or replacement of university properties.

2. General Fund Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the fiscal years ended June 30, 2005, and June 30, 2006. As stated in note 3, the department is the administrator of the General Fund. As a result, the cash balances in the General Fund at fiscal year-end for all other state agencies is closed and recorded on the department's accounting records.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue, Capital Projects, Internal Service, and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by

separate agencies. The department is the administrator of the General Fund. The direct entry to fund balance in the amount of approximately \$168 million in fiscal year 2004-05 and \$231 million in fiscal year 2005-06, reflects the department closing cash balances of other agencies sharing the general fund.

4. Revenue Estimates

On the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2005, the Internal Service Fund shows an estimated amount of \$90,134,185 which represents the amount in the charges for services revenue class was under the amount estimated to be received. This relates to group benefits activity. In fiscal year 2004-05, the department set up an estimate for the group benefits fund, but failed to designate the fund as budgeted. As a result, \$96,472,007 in charges for services collected for group benefits did not post against the revenue estimate.

The \$73 million and \$69 million under estimates in the Capital Projects Fund, respectively, on the fiscal year 2004-05 and 2005-06 Schedules of Revenues & Transfers-In represent the amount of funds that will be transferred to the Long-Range Building Program according to state policy for active projects at the Architecture and Engineering Division. As projects are completed, the estimate amount will decrease.

5. Unspent Budget Authority

On the Schedule of Total Expenditures & Transfers-Out, the Departments and Agencies, Corrections, DPHHS, and University System columns have material unspent budget authority amounts. These amounts are related to active projects administered by the Long-Range Building Program. The entire estimated cost of the project is encumbered when the project is started. Many projects are not completed in one fiscal year resulting in the unspent budget amounts on the schedule. The unspent budget amounts represent estimated costs to complete the active projects.

6. Health Care and Benefits Division

During fiscal year 2004-05, the Employee Benefits Bureau was part of the State Personnel Division on the Schedule of Expenditures & Transfers-Out. Effective July 1, 2005, the Bureau became its own

Notes to the Financial Schedules

division titled the Health Care and Benefits Division. On the fiscal year 2005-06 Schedule of Expenditures & Transfers-out, the Health Care and Benefits Division is shown in a separate column. The State Personnel Division expenditure activity will be significantly lower than fiscal year 2004-05 as a result of this change.

7. Administrative Financial Services Division Benefits

In fiscal year 2004-05, state law required the department to transfer funds to the Highway Patrol Retirement Fund. Due to a new accounting standard, the department recorded the transfer to the benefits expenditure object. However, state accounting policy was issued to comply with the standard and required a transfer expenditure object be used. As a result, on the 2004-05 Schedule of Expenditures & Transfers-Out \$349,839 recorded to Employee Benefits in the Administrative Financial Services Division relates to Highway Patrol retirement. The Accounting Entity Transfers do not reflect this activity. As of July 1, 2005, state law was amended and this transfer is no longer required.

8. Agency Fund Ending Fund Balance

At fiscal year-end, the department makes necessary entries in certain funds to close the accounting records for the fiscal year. In fiscal year 2004-05, the department made a closing entry to an agency fund that was shared by the department and the Department of Revenue. The net effect of the entry is a zero fund balance for the fund. However, on the department's Schedule of Changes in Fund Balances & Property Held in Trust for fiscal year 2004-05, there is a fund balance of \$(693,008). Conversely, the Department of Revenue's accounting records show a positive balance for this fund. In fiscal year 2005-06, the department changed the entries used to close agency funds so a fund balance would not result at individual departments in agency fund types.

Department Response

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



BRIAN SCHWEITZER, GOVERNOR

JANET R. KELLY, DIRECTOR

STATE OF MONTANA

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October 13, 2006

Scott Seacat
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED

OCT 13 2006

LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

The Department of Administration has reviewed the October 2006 Financial Compliance Audit for the two fiscal years ending June 30, 2006. Our response to the recommendations appears below:

Recommendation #1

We recommend:

- A. The department limit group benefits expenses to plan claims and fund the volunteer employee benefit account from plan revenue as required by state law.
- B. The VEBA fund reimburses the group benefits fund \$382,576 for the transfers made in fiscal years 2004-05 and 2005-06.

Response:

- A. We concur. The Voluntary Employees' Beneficiary Association (VEBA) plan participation must be expanded and its administrative costs reduced to achieve this recommendation. The VEBA plan's primary funding source is currently the plan participants' unused sick leave. The department is seeking legislation to change the allowable funding sources and enhance VEBA plan participation. For example, unused annual leave could be used as a contribution source and disincentives could be eliminated, resulting in increased plan participation. The department is also working to reduce VEBA plan operating costs by procuring a more cost effective contract for administrative services.
- B. We conditionally concur. The VEBA program cannot be financially viable without legislative action. If the proposed legislation passes and the VEBA plan successfully builds its fund balance, the department will repay the group benefits fund.

Recommendation #2:

We recommend the department pay the procurement credit card bill through an appropriation as required by the constitution.

Response:

We do not concur. The current procurement card payment procedure used by the department and other state agencies complies with the intent of the state constitution. The net effect of all the related accounting entries is recorded against an appropriation, as required by the constitution.

Recommendation #3:

We recommend the department ensure the state's revenue collected by the e-service provider is deposited in the state treasury in compliance with state law.

Response:

We conditionally concur. According to the department's legal counsel, the department is in compliance with the State's depository statute. However, the department agrees that the money collected by the e-service provider should be deposited in the state treasury on a more timely and consistent basis, and is developing a policy to address timely deposits.

Recommendation #4:

We recommend the department:

- A. Ensure expenditure transactions are properly authorized according to division control procedures.
- B. Ensure travel claims are properly supported and approved in accordance with state travel policy.

Response:

- A. We concur. The Information Technology Services Division is developing internal control procedures to make sure all expenditure transactions are properly approved and documented.
- B. We concur. The Information Technology Services Division is enforcing internal control procedures on all travel vouchers to ensure compliance with state policy.

Recommendation #5:

We recommend the department update and follow the surplus property policy manual.

Response:

We concur. The surplus property policy manual will be updated before the end of calendar year 2006 to implement controls that are cost effective.

Recommendation #6:

We recommend the department ensure that approval decisions made by agencies are accurately established in SABHRS.

Response:

We concur. The Department of Administration will ensure that the journal approval configuration decisions are verified and accurately established in SABHRS.

Recommendation #7:

We recommend the department:

- A. Ensure all divisions are aware of state accounting policy relating to accounting for federal funds.
- B. Comply with state accounting policy related to recording expenditure abatements, federal fund balances, and revenue classes.

Response:

- A. We concur. Divisions will be reminded to follow state accounting policy in accounting for federal funds. In addition, the Administrative Financial Services Division will develop a policy to identify new federal activity and provide divisions with the appropriate accounting policies.
- B. We concur. Divisions will be reminded to follow state accounting policy in recording expenditure abatements, federal fund balances, and revenue classes.

Recommendation #8:

We recommend the department develop adequate controls to ensure the SWCAP is accurately completed and submitted timely in accordance with federal regulations.

Response:

We concur. The department will continue its work to improve the controls governing the SWCAP (Statewide Cost Allocation Plan) preparation and timely submission to ensure compliance with federal regulations.

Recommendation #9:

We recommend the department allocate volume discount rebates from credit card companies to federal expenditures as required by federal regulations.

Response:

We conditionally concur. The department believes it is following federal regulations and is not required to allocate the rebates to federal expenditures. However, the department will work with appropriate federal agencies to determine if the volume discount rebates meet the definition of a

rebate under CFR 225. If needed, the department will develop a procedure to allocate this rebate to federal expenditures.

Recommendation #10:

We recommend the department:

- A. Record all revenue for the statewide fueling network and purchasing card programs in the fund approved by the legislature.
- B. Seek legislation to move the statewide fueling network and purchasing card programs to a fund that is appropriate under state law.

Response:

- A. We do not concur. The expenditures were recorded in the Internal Service Fund (ISF) in which they were budgeted. The revenues were recorded in the ISF to the extent required to fund the expenditures. The revenues and expenditures would have been moved to a governmental fund during fiscal year 2006; however, budgetary law required the expenditures remain in the internal service fund. Revenues in excess of the amount required to fund the expenditures of the ISF were deposited into a governmental fund. The revenue and expenditures have been reported on the State's financial records in a manner that complies with the related statutes to the extent possible.
- B. We concur. Legislation will be submitted to move this activity to a special revenue fund.

Recommendation #11:

We recommend the department:

- A. Comply with section 18-1-110, MCA, and include hiring preference provisions in contracts.
- B. Comply with section 75-10-806(5), MCA, and establish a joint recycling market development task force.
- C. Comply with section 2-18-204 (1), MCA, and determine classes of positions of employees each fiscal year.
- D. Comply with section 22-3-804, MCA, and appoint members of the Burial Preservation Board as the law allows.
- E. Or seek legislation to amend the laws.

Response:

- A. We concur. We will include hiring preference provisions in construction contracts in compliance with section 18-1-110, MCA.
- B. We concur. The Department of Environmental Quality will take the lead on remobilizing the task force, and the Department of Administration will continue to support these efforts. The Department of Environmental Quality plans to schedule a meeting of the task force before the end of calendar year 2006.
- C. We concur. Legislation will be submitted to clarify the law.
- D. We concur. The Burial Board no longer has more than 13 members, and is in compliance with statute.

Recommendation #12:

We recommend the department comply with section 17-8-101 (6), MCA, and ensure internal service fund rates are commensurate with costs or seek legislation to move activity to a more appropriate fund type.

Response:

We concur. The department will continue to strive toward maintaining these funds in compliance with section 17-8-101(6), MCA. It is difficult to document compliance; the rates are determined two-to-three years in advance due to the legislative budgetary process.

Thank you and your staff for conducting the audit in a professional manner.

Sincerely,

Janet R. Kelly, Director

A handwritten signature in black ink, appearing to read "Janet R. Kelly", is written over the typed name. The signature is fluid and cursive, with the first name "Janet" being more prominent.